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SUBJECT: RUSSIA CUTS OFF GAS TO UKRAINE

TREAT AS SENSITIVE BUT UNCLASSIFIED. NOT FOR INTERNET.

¶1. (SBU) Summary and Comment. Naftohaz officials confirmed that supplies of Russian gas had decreased substantially on January 1. The cutoff came despite Ukraine's insistence that it had paid more than \$2 billion of its gas debt. In a joint statement, President Viktor Yushchenko and Prime Minister Yuliya Tymoshenko said the cutoff resulted over the failure of the two sides to agree on a 2009 gas price and transit fee. The GOU has claimed that gas transit obligations to other European countries will be met at least for another week. Ukrainian officials aim to resume gas negotiations with Russia on January 5, if not sooner, despite the cutoff. The cutoff does not have an immediate impact on the domestic gas market in Ukraine, as the country claims to have enough gas in storage to meet domestic demand "for the foreseeable future." Nevertheless, the GOU is making contingency plans. The GOU has appealed to the USG to support a trilateral Ukraine/EU/Russia dialog to solve the dispute, yet initial EU reactions on January 1 indicate a reluctance to outwardly support Ukraine.

¶2. (SBU) Comment: Whatever commercial differences continue to separate the two sides, the cutoff in the middle of winter could eventually lead to serious disruptions in Ukraine, and might, if we believe GOU officials' statements, begin to affect supplies destined for the rest of Europe in a week. We should denounce the cutoff and call on the two sides to return to the bargaining table as quickly as possible. End summary and comment.

#### Ukraine Confirms Gas Reductions

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¶3. (SBU) Gas transport experts from state-owned energy company Naftohaz Ukrainy on January 1 told us that significant gas reductions occurred at three gas metering and compressor stations at 11:00am Kyiv time. Deputy Prime Minister Hryhoriy Nemyria also told us that Gazprom had reduced gas supplies by an amount equal to what Ukraine imports from Russia on a daily basis. Russia continued to allow 310 mcm of gas to transit Ukraine to the rest of Europe, the normal daily volume for other European destinations. Gazprom Press Representative Sergei Kupriyanov on the afternoon of January 1 told reporters that all gas supplies earmarked for Ukraine had been cut.

#### Ukraine Guarantees Supplies to Rest of Europe, for Now

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¶4. (SBU) Despite Gazprom's cutoff to Ukraine, Yushchenko on January 1 publicly pledged that Ukraine would continue to provide uninterrupted gas supplies to the rest of Europe. Gazprom sources told the media that it would need roughly 36 hours to determine if Ukraine is indeed allowing normal daily flows to exit its territory toward Central Europe and beyond. Ukrainian Deputy Fuel and Energy Minister Serhiy Pavlusha told EconOff that Ukraine would be able to meet its gas transit commitments to other European customers for at least one week. He added, however, that this would require additional "technical" gas to maintain Ukraine's gas compressor

stations, which are needed to keep Ukraine's gas transit infrastructure operating. DPM Nemyria confirmed the same information in a phone conversation with the Ambassador on January 11.

15. (SBU) Nemyria also told the Ambassador that the cutoff was also disadvantageous for Gazprom because according to Nemyria Gazprom will run out of storage capacity for gas supplies that otherwise would have been shipped to Ukraine. Press reports indicate that Gazprom on January 1 had diverted 25 mcm per day from pipelines that transit Ukraine to Belarusian pipelines. Gazprom denied that the increase in gas shipments through Belarus was connected to the cutoff of supplies to Ukraine.

Where Does the Gas Debt Stand?  
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16. (SBU) Naftohaz officials on December 30 claimed that Naftohaz had remitted \$1.52 billion to gas intermediary RosUkrEnergo (RUE) for gas consumed in 2008. Gazprom and Russian officials for months said that Naftohaz's debt was about \$2 billion after Naftohaz paid down \$1 billion of the debt last week. Naftohaz said that, of the total debt, \$450 million were late fees and penalties that Ukraine refused to pay, and that Naftohaz would take its case to international arbitration if necessary. Ukrainian Presidential Advisor for Energy Security Bohdan Sokolovskiy told EconOff that Gazprom officials insisted that Naftohaz pay its entire debt. He added, however, that gas negotiations between the two sides did not fail because of the dispute over gas debt.

Gas Price, Transit Fee in Dispute  
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17. (SBU) President Yushchenko and PM Tymoshenko (who are often at political odds) on January 1 released a joint statement which outlined the remaining differences between the sides, at least from the Ukrainian point of view. They acknowledged that Gazprom is asking for \$250/tcm for 2009. Ukraine is offering \$201/tcm, up from \$179.5/tcm in 2008. They refer to the October 2, 2008, MOU announced by Tymoshenko and Russian PM Putin which foresees a three-year transition to central and western European prices. Because of the severe drop in oil prices, a price of \$250/tcm would mean that Ukraine would already be paying roughly central European prices, they argue in their statement.

18. (SBU) In their statement, Yushchenko and Tymoshenko also acknowledged remaining differences in the transit price for 2009. Ukraine wants at least \$2/tcm per 100 km, they wrote, whereas Russia wanted \$1.7/tcm per 100 km, the rate for 2008. Such a price would not allow Ukraine to maintain the gas transit system in a proper technical condition, they argued.

19. (SBU) Later on January 1, however, Naftohaz Chairman Oleh Dubyna held a press conference to announce that Naftohaz was ready to pay \$235/tcm as long as Russia would accept a transit rate of \$1.8/tcm per 100km.

110. (SBU) In their statement, Yushchenko and Tymoshenko reiterated that the October 2 MOU foresaw direct gas relations between Gazprom and Naftohaz. They did not imply that Russia wanted to keep intermediaries, and nowhere in public statements on January 1 were RUE or other intermediaries mentioned.

Negotiations to Continue?  
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111. (SBU) Deputy Fuel and Energy Minister Pavlusha told us he had confirmation that gas negotiations would resume in Moscow on Jan. 5, if not sooner. DPM Nemyria confirmed this to the Ambassador as well. However, later on January 1 Naftohaz spokesman Valentin Zemlyansky said that a Naftohaz delegation may travel to Moscow that evening to resume gas talks with Gazprom officials. Tymoshenko may also go to Moscow within the next few days, he said. Alexei Gudyma, Tymoshenko advisor for energy issues, said that the PM will join

efforts -- maybe as early as January 2 -- to resolve the gas dispute and that an agreement will be reached on or before Orthodox Christmas on January 7.

#### Ukraine Urges USG to Back Ukraine/EU/Russia Negotiations

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¶12. (SBU) In a letter to President Bush, Yushchenko asked the USG to support trilateral negotiations with participation by Ukraine, the EU and Russia to reach an agreement on the gas issue. The GOU also suggested such a trilateral approach to the negotiations in a dipnote to the Russian government that the GOU shared with us.

#### Contingency Plans

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¶13. (SBU) The President and Prime Minister also stated that the gas cutoff would not affect the Ukrainian population, as Ukraine has sufficient gas in storage to cover domestic demand for "an extended period". They also said gas transit through Ukraine to other European countries was secured for now. Separately, Nemyria told the Ambassador that the Ukrainians have begun to implement contingency plans to move industry to mazut (heavy fuel oil) and to begin to draw gas reserves. Tymoshenko called EU Commissioner Barroso again on December 31 to reassure him that gas will continue to flow to Europe. Nemyria said Ukraine could maintain gas supplies to the rest of Europe for at least a week.

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